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National Intelligence Daily Cable for Saturday, May 7, 1977.

The NID Cable is for the purpose of informing senior US officials.

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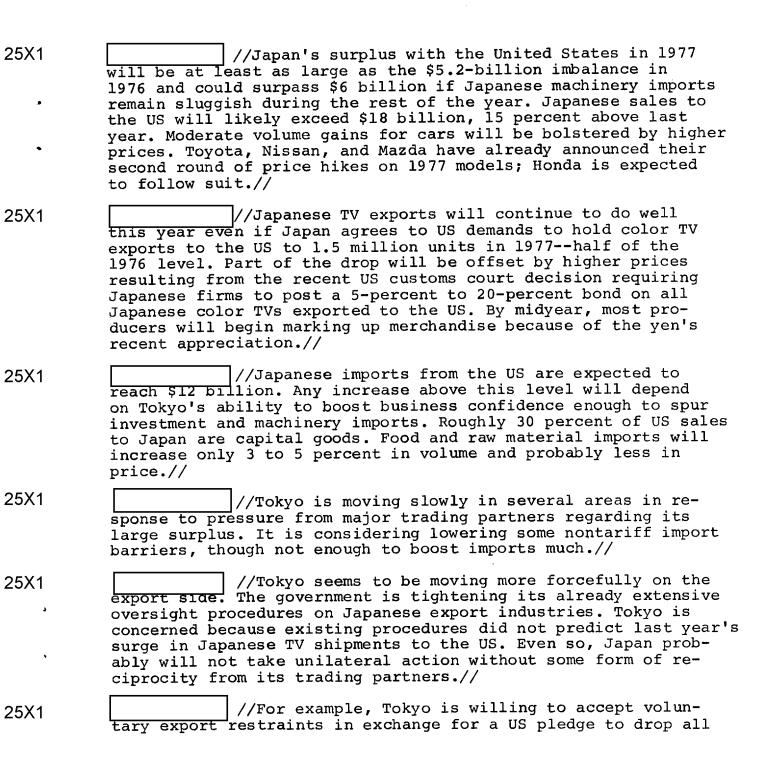
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JAPAN: Possible Trade Surplus //Japan is well on its way to a record \$13-billion trade surplus this year. Tokyo may step up efforts to slow export growth, lower selected import barriers, and allow some further appreciation of the yen, but these measures will come too late to trim this year's surplus appreciably. Japan's surplus with the United States will at least match the 1976 level of \$5 billion and may even exceed \$6 billion.// //Japanese exports should exceed \$77 billion this year, 17 percent above 1976. More than half the increase will reflect higher prices, particularly for cars and consumer electronics.// Japanese imports will reach \$64 billion, 14 percent above 1976. Even if Japan achieves its 6.7percent growth target for the 1977 fiscal year, which began on April 1, import volume will increase only 8 percent in calendar year 1977. Oil imports should increase about 5 percent in volume and roughly 17 percent in value. Prospects are dim for a revival in machinery or consumer goods imports at this time because of the low level of domestic confidence in Tokyo's reflation efforts.// //Japan's heavy dependence on developed countries to absorb exports this year will ease because of Tokyo's sensitivity to complaints by other industrial countries, new trade barriers by these countries, and reviving import demand in less developed countries. In the first half of 1976, sales to the US and Western Europe accounted for nearly all of Japan's increase in exports; by the end of the year the share had slipped to 70 percent, and it was under 50 percent for the first quarter of 1977. So far this year, sales to less developed countries are outpacing the growth in Japan's total exports.//

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ment, Tokyo may retaliate. It is already examining the potential impact of higher tariffs on US exporters of semiconductors to Japan.//

//Japan's large trade surplus has meant continuing upward pressure on the yen. In the past few weeks, however, Tokyo's move to cut interest rates as part of a reflation effort has pushed the yen down about 2 percent, to 278 to the dollar. Once interest rates settle, the yen will likely move back to the 270 level, at which Tokyo will actively intervene to prevent further appreciation.

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actions against Japanese TV imports. Without this type of agree-

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USSR-ETHIOPIA: Mengistu's Visit

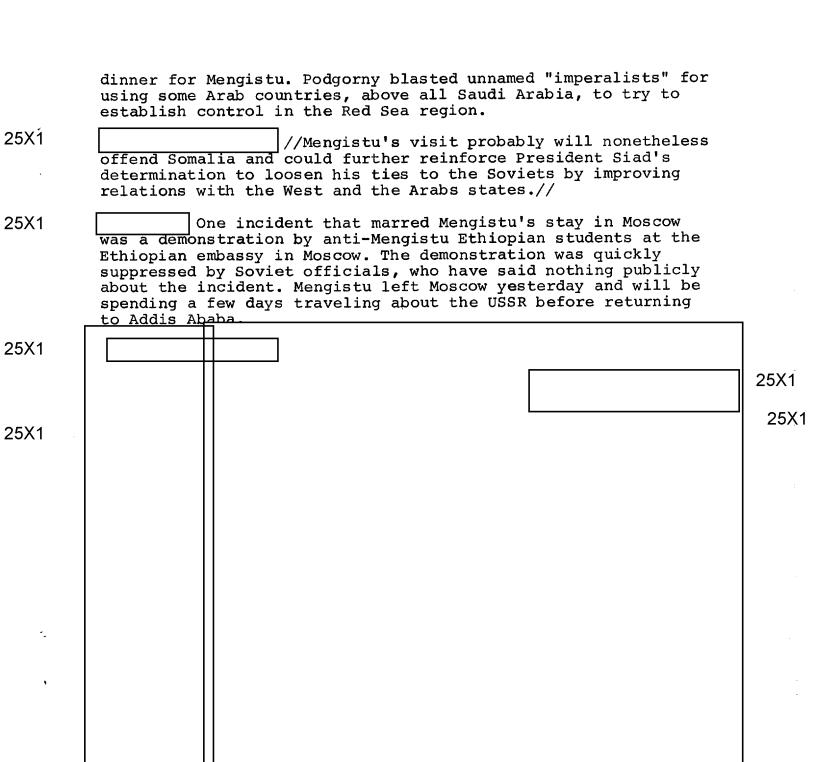
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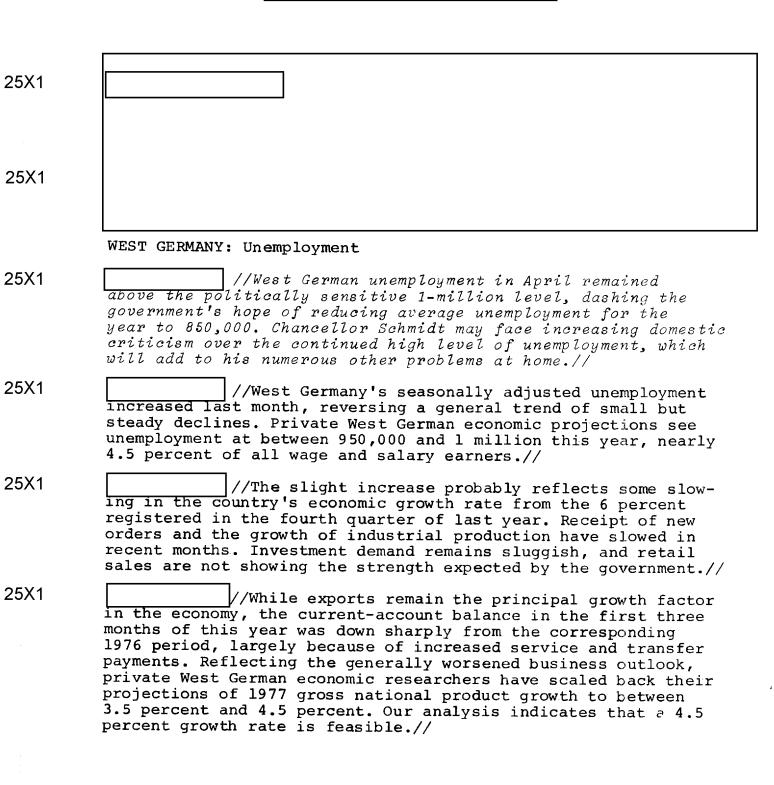
//Ethiopian military leader Mengistu's current state visit to the USSR has resulted in the signing of a joint political document setting forth each side's commitment to developing bilateral relations. Mengistu probably values the document primarily for its likely negative impact on Ethiopia's arch rival, Somalia. The Ethiopians and Soviets also signed economic, cultural and scientific, and consular agreements.//

The political document presumably is similar to agreements Moscow has reached with many other Western and thirdworld countries. These usually contain statements of principles on the two sides' willingness to work for closer political, economic, and sometimes military relations.

The Soviets signed such documents prior to concluding their friendship treaties with Angola and Mozambique, and this document could set the stage for an eventual Soviet-Ethiopian friendship treaty. At present, however, Moscow probably is reluctant to go this far--even if Ethiopia were willing--for fear of further antagonizing Somalia.

Moscow has been careful not to give Mengistu any better treatment than that accorded Somali President Siad during his last state visit to the USSR. Moscow's concern about Western and moderate Arab efforts to profit from the USSR's troubles with Somalia was evident in President Podgorny's speech at his





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25X1 //Bonn's much-acclaimed \$5-billion to \$6-billion medium-term investment program is not likely to contribute to economic growth and employment this year, unless the government decides to increase substantially its request for 1977 spending authority under the program. Finance Minister Apel already has introduced a supplemental budget requesting spending authority for \$220 million in cash outlays and requesting the authority to place orders totaling \$1.6 billion. The effect of even the very modest increase in spending authority was to be neutralized, however, by offsetting cuts in other expenditures. PAKISTAN: Demonstrations 25X1 Demonstrations yesterday in Pakistan do not appear to have been serious enough to present an immediate threat to Prime Minister Bhutto's ability to stay in office. They may nevertheless have been sufficiently successful to encourage the opposition to continue its campaign against him. 25X1 The opposition was able to stage demonstrations in most large cities, including the three largest, where martial law and a curfew were in effect. The most serious incident apparently was in Lahore, where troops fired on demonstrators, killing three. There were also clashes in Hyderabad, Sukkur, and Lyallpur. 25X1 Official announcements have always tended to play down the level of violence, and with censorship in effect there is no other source of current information on events outside the few major cities where there are foreign officials and newsmen.

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alized soon. State oil pricing policies could lead to a steady drop in business, however, for the remaining foreign operations.

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,	USSR-SWEDEN: Fishing Dispute
X1	The USSR and Sweden are at odds over delineating a fishing boundary in the Baltic Sea between the two countries. The Swedish government recently submitted a bill to the legislature that would permit the country's fishing zone to 200 nautical miles. If the bill is passed, Sweden may claim 45 percent of the Baltic fishing area, compared with the 10 percent it claims at present.
<b>X1</b>	Sweden wants its zone to extend to a line equidistant from the USSR and the Swedish island of Gotland, 80 miles east of the Swedish mainland. The Soviets contend that the limit should be drawn between the two mainlands, as provided for in the 1973 Gdansk Convention, which regulates fishing between coastal states. In that case, the delineation would lie less than 12 nautical miles east of Gotland.
5 <b>X1</b>	In recent discussions, Soviet and Swedish delegations agreed that negotiations on Baltic Sea fishing should be resumed soon. The head of the Swedish delegation has indicated that if no agreement is reached soon, however, Sweden may unilaterally declare a fishing boundary between the two countries.
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